

CASMAN Alternative Academy

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of CASMAN Alternative Academy's (the "Academy") annual financial report presents a discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

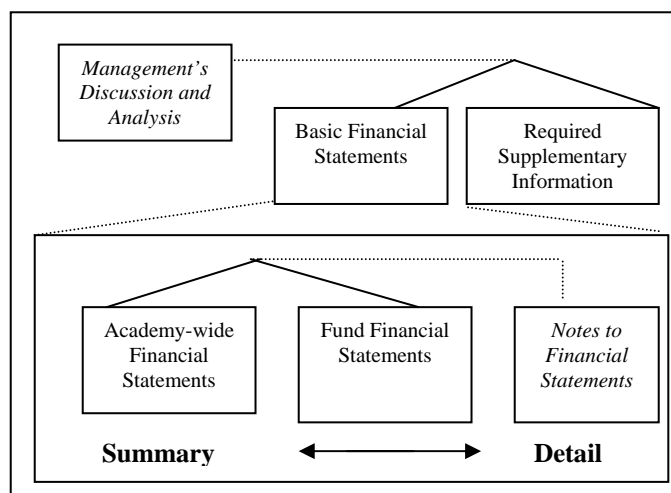
- The Academy's net assets increased during the year due to an increase in enrollment from the 2006-2007 school year.
- The State of Michigan foundation grant of \$7,204/pupil in 2007-2008 represents an increase of 2% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are the *Academy-wide financial statements* that provide both *short-term* and *long-term* information about the Academy's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Academy, reporting the Academy's operations *in more detail* than the Academy-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.

Figure A-1
CASMAN Alternative Academy's
Annual Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

ACADEMY-WIDE STATEMENTS

One of the most important questions asked about the Academy is, “As a whole, what is the Academy’s financial condition as a result of the year’s activities?” The statement of net assets and the statement of activities, which appear first in the Academy’s financial statements, report information the Academy as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy’s net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy’s operating results. However, the Academy’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all the Academy’s services, including instruction and supporting services. State foundation allowance and grant revenues finance most of these activities.

FUND FINANCIAL STATEMENTS

The Academy’s fund financial statements provide detailed information about the fund – not the Academy as a whole. Some funds are required to be established by state law. The governmental fund of the Academy uses the following accounting approach:

- All of the Academy’s services are reported in one governmental fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental funds in a reconciliation.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy’s *combined* net assets were greater on June 30, 2008 than they were the year before – increasing by \$21,576.

The Academy’s positive financial position for the year is the product of an increase in student count and foundation allowance.

Table A-2
CASMAN Alternative Academy's Net Assets

	2007	2008
Current and other assets	\$ 526,604	\$ 578,923
Capital assets	594,225	552,808
Total assets	1,120,829	1,131,731
Long-term debt outstanding	-	251,707
Other liabilities	339,360	76,979
Total liabilities	339,360	328,686
Net assets		
Invested in property and equipment, net of related debt	331,087	293,100
Unrestricted	450,382	509,945
Total net assets	\$ 781,469	\$ 803,045

Table A-3
Changes in CASMAN Alternative Academy's Net Assets

	2007	2008
Revenues		
Charges for services	\$ 2,289	\$ 1,855
Operating grants and contributions	117,743	211,954
Capital grants and contributions	-	12,600
State aid unrestricted	677,032	779,833
Other	40,991	54,704
Total revenues	838,055	1,060,946
Expenses		
Instruction	300,885	379,120
Supporting services	522,210	603,873
Other	3,147	3,200
Interest on long-term debt	4,357	4,812
Unallocated depreciation	46,095	48,365
Total expenses	876,694	1,039,370
Increase (decrease) in Net Assets	(38,639)	21,576
Net Assets - Beginning of year	820,108	781,469
Net Assets - End of year	\$ 781,469	\$ 803,045

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported a fund balance of \$509,945, \$256,283 more than last year's ending fund balance of \$253,662.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised its annual operating budget several times. These budget amendments are as follows:

- Changes made during the year to accurately reflect state funding.
- While the final budget for the general fund anticipated that revenues and expenditures would reflect a surplus of \$44,645, the actual results for the year show a surplus of \$59,563.
- Actual revenues were \$1,263, lower than expected.
- Actual expenditures were \$16,181, 2% less than the final budget, which was due primarily to year end maintenance costs and final adjustments to grant expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2007/2008 school year totaled \$727,551. During the year, the Academy invested an additional \$6,948 in furniture and equipment.

Table A-4			
CASMAN Alternative Academy's Capital Assets			
	2007	Additions	2008
Capital assets not being depreciated:			
Land	\$ 64,908	\$ -	\$ 64,908
Capital assets being depreciated:			
Building and building improvements	446,560	-	446,560
Furniture and equipment	274,043	6,948	280,991
Gross capital assests	785,511	6,948	792,459
Accumulated depreciation:	(191,286)	(48,365)	(239,651)
Net governmental capital assets	\$ 594,225	\$ (41,417)	\$ 552,808

Long-term Debt

More detailed information about the Academy's long-term liabilities is presented in Notes F and G to the financial statements. During the year, the Academy refinanced the line of credit and building mortgage into one agreement. Following is a summary of debt transactions for the year.

Table A - 6 CASMAN Alternative Academy's Outstanding Long-Term Debt				
	<u>2007</u>	<u>Additions</u>	<u>Payments/ Refinancing</u>	<u>2008</u>
Note payable	\$ 66,418	\$ -	\$ (66,418)	\$ -
Mortgage note payable	-	259,708		259,708
Total	<u>\$ 66,418</u>	<u>\$ 259,708</u>	<u>\$ (66,418)</u>	<u>\$ 259,708</u>

FACTORS BEARING ON THE ACADEMY'S FUTURE

At the time these financial statements were prepared and audited, the Academy was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The 2008-2009 foundation allowance is estimated to increase to \$7,316/pupil. The foundation allowance represents 75 percent of total Academy revenue. We expect student enrollment to slightly decrease for the year.
- Michigan Public School Employees' Retirement Systems ("MPSERS") costs have been reevaluated resulting in a 1.08% decrease for fiscal year 2008-2009.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the CASMAN Alternative Academy Business Office at 1710 Merkey Road, Manistee, MI, 49660.



Business and Financial Advisors

Our clients' success – our business

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
CASMAN Alternative Academy

We have audited the accompanying financial statements of the governmental activities and each major fund of **CASMAN Alternative Academy** (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of CASMAN Alternative Academy as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Member of



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The management's discussion and analysis on pages i - v and the budgetary comparison information on page 18 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

September 24, 2008

CASMAN Alternative Academy

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 153,226
Investments	220,193
Due from other governmental units	203,424
Prepaid expenses	<u>2,080</u>
Total current assets	578,923
Capital assets, net of accumulated depreciation	<u>552,808</u>
Total assets	<u><u>\$ 1,131,731</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 3,807
Accrued payroll expenses	57,094
Due to other governmental units	8,077
Current portion of note payable	<u>8,001</u>
Total current liabilities	<u>76,979</u>
Non-current portion of long-term debt	<u>251,707</u>
NET ASSETS	
Invested in capital assets, net of related debt	293,100
Unrestricted	<u>509,945</u>
Total net assets	<u>803,045</u>
Total liabilities and net assets	<u><u>\$ 1,131,731</u></u>

The accompanying notes are an integral part of these financial statements.

CASMAN Alternative Academy

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Instruction	\$ 379,120	\$ -	\$ 137,022	\$ 12,600	\$ (229,498)
Support services	603,873	1,855	74,932	-	(527,086)
Other	3,200	-	-	-	(3,200)
Interest on long-term debt	4,812	-	-	-	(4,812)
Depreciation-unallocated	<u>48,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,365)</u>
Total governmental activities	<u>\$ 1,039,370</u>	<u>\$ 1,855</u>	<u>\$ 211,954</u>	<u>\$ 12,600</u>	<u>(812,961)</u>
General purpose revenues					
State school aid - unrestricted					779,833
Investment and other					<u>54,704</u>
Total general purpose revenue					<u>834,537</u>
Change in net assets					21,576
Net assets, beginning of year					<u>781,469</u>
Net assets, end of year					<u>\$ 803,045</u>

CASMAN Alternative Academy

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2008

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 153,226
Investments	220,193
Due from other governmental units	203,424
Prepaid expenses	<u>2,080</u>
Total assets	<u><u>\$ 578,923</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 3,807
Accrued payroll expenses	57,094
Due to other governmental units	<u>8,077</u>
Total liabilities	<u>68,978</u>
FUND BALANCE	
Reserved for prepaid expenses	2,080
Unreserved and undesignated	<u>507,865</u>
Total fund balance	509,945

Reconciliation of Governmental Fund Balances to Academy-Wide Government Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$792,459 and the accumulated depreciation is \$239,651. 552,808

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Mortgage note payable (259,708)

Total net assets - governmental activities \$ 803,045

CASMAN Alternative Academy

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended June 30, 2008

	General Fund
Revenues	
Local revenues	\$ 153,029
State revenues	812,833
Federal revenues	93,732
Other	<u>1,352</u>
Total revenues	<u>1,060,946</u>
Expenditures	
Instruction	379,120
Support services	586,087
Other	3,200
Debt service	
Principal	3,430
Interest	4,812
Capital outlay	<u>24,734</u>
Total expenditures	<u>1,001,383</u>
REVENUES OVER EXPENDITURES	59,563
Other financing sources (uses)	
Proceeds from long-term debt	<u>196,720</u>
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	256,283
Fund balance, beginning of year	<u>253,662</u>
Fund balance, end of year	<u><u>\$ 509,945</u></u>

The accompanying notes are an integral part of these financial statements.

CASMAN Alternative Academy

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE WITH THE ACADEMY-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	256,283
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$	6,948	
Depreciation expense		<u>(48,365)</u>	(41,417)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	3,430
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The line of credit was refinanced with long-term debt proceeds. The amount refinanced by the proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net assets.	<u>(196,720)</u>
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Change in Net Assets of Governmental Activities	\$	<u>21,576</u>
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CASMAN Alternative Academy

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

CASMAN Alternative Academy (the "Academy") primarily serves the Manistee community. As of June 30, 2008, the Academy employed 14 professional staff and had 109 students enrolled at the Academy.

The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governments. The Academy is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the Academy are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Academy's financial activities for the fiscal year ended June 30, 2008.

The Financial Reporting Entity

The Academy is a Michigan non-profit corporation which operates as a Public School Academy in Manistee County, Michigan, pursuant to Part 6B of the Michigan School Code of 1976, Act No. 451 of the Public Acts of 1976, as amended, being Sections 380.501 to 380.519 of the Michigan Compiled Laws.

State law requires that a public school academy be authorized and monitored by a local oversight agency. The oversight agency can be a public university, a community college, an intermediate school district or a local school district. In fulfillment of this requirement, the Academy entered into a contract to charter a public academy on July 10, 1997, with the Manistee Area Public Schools Board of Education ("MAPS Board"), a local school district. Effective July 1, 2001, a new charter was approved, and Manistee Intermediate School District became the oversight agency for the Academy.

The Academy is governed by a Board of Education (the "Board") of five to nine members. In compliance with Michigan law, the initial Board was appointed by resolution of the MAPS Board, the original authorizing body for the Academy. Subsequent members of the Board are appointed by the current authorizing body from a list of nominees submitted by the Academy's Board of Education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement #14, since Board members have the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the Academy holds assets in the capacity of an agent.

NOTES TO FINANCIAL STATEMENTS - Continued

Academy-Wide and Fund Financial Statements

Academy-Wide Financial Statements

The statement of net assets and statement of activities display information about the Academy as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Academy; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and change in fund balance (i.e., fund financial statements) for the Academy's governmental fund are presented after the academy-wide statements. These statements display information about major funds individually for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures. The Academy does not have any non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Academy are prepared in accordance with generally accepted accounting principles ("GAAP"). The Academy's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Academy's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The academy-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Academy considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest, which are reported as expenditures in the year due.

NOTES TO FINANCIAL STATEMENTS - Continued

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund.

Cash and Equivalents

The Academy's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The Academy generally capitalizes assets with costs of \$2,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years

Long-Term Debt

In the Academy-wide financial statements, outstanding debt is reported as a liability. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. Designations of fund balance represent tentative management plans that are subject to change.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the Academy's general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The Academy's most significant program revenues are Title I, Comprehensive School Reform Demonstration and PSA Protected, which are reported as operating grants and contributions.

Spending Policy

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as needed.

Encumbrance Accounting

The Academy formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The Academy reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The Academy has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2008, the Academy incurred expenditures which were in excess of the amounts appropriated as reflected in the budgetary comparison schedule as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Support services			
Pupil	\$ 162,793	\$ 167,537	\$ (4,744)

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND INVESTMENTS

At June 30, 2008, the Academy's cash and investments included the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 200	\$ -	\$ 200
Bank deposits	<u>153,026</u>	<u>220,193</u>	<u>373,219</u>
	<u>\$ 153,226</u>	<u>\$ 220,193</u>	<u>\$ 373,419</u>

Bank Deposits

All cash of the Academy is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk - Deposits

In the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2008, \$197,467 of the Academy's bank balance of \$397,467 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Academy's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificate of deposits and savings accounts of banks and credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

Investment's at June 30, 2008 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>Current</u>	<u>More than 5 years</u>
Certificate of Deposit	<u>\$ -</u>	<u>\$ 220,193</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Interest Rate Risk

The Academy does not have a formal investment policy. However, the Academy attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity.

NOTE D - INTERGOVERNMENTAL RECEIVABLES AND DEFERRED REVENUE

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governmental units at June 30, 2008 are as follows:

Due from the State of Michigan - State aid	\$ 148,436
Due from other governmental units	17,321
Due from Federal Grants	<u>37,667</u>
	<u>\$ 203,424</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consisted of the following:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Buildings and improvements	\$ 446,560	\$ -	\$ -	\$ 446,560
Furniture and equipment	<u>274,043</u>	<u>6,948</u>	<u>-</u>	<u>280,991</u>
Total depreciable assets	720,603	6,948	-	727,551
Less accumulated depreciation	(191,286)	(48,365)	-	(239,651)
Land	<u>64,908</u>	<u>-</u>	<u>-</u>	<u>64,908</u>
Total capital assets, net	<u>\$ 594,225</u>	<u>\$ (41,417)</u>	<u>\$ -</u>	<u>\$ 552,808</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 48,365</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2008 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Refinanced</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Note payable	\$ 66,418	\$ -	\$ 3,430	\$ 62,988	\$ -	\$ -
Mortgage note payable	<u>-</u>	<u>259,708</u>	<u>-</u>	<u>-</u>	<u>259,708</u>	<u>8,001</u>
Long-term debt at June 30, 2008	<u>\$ 66,418</u>	<u>\$ 259,708</u>	<u>\$ 3,430</u>	<u>\$ 62,988</u>	<u>\$ 259,708</u>	<u>\$ 8,001</u>

At June 30, 2008, the Academy's long-term debt consisted of the following:

Mortgage payable to a bank, with interest at 3.679% in monthly installments of \$1,539 including interest, with a final irregular payment of \$212,733 due on July 1, 2013.

Secured by the real property of the Academy.

\$ 259,708

Total annual requirements to amortize the mortgage payable as of June 30, 2008 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,001	\$ 8,930
2010	9,367	9,103
2011	9,718	8,753
2012	10,081	8,389
2013	10,458	8,012
2014	<u>212,083</u>	<u>650</u>
Total	<u>\$ 259,708</u>	<u>\$ 43,837</u>

Interest expense for the year ended June 30, 2008 was \$4,812.

NOTE G - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The Academy manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The Academy pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to CASMAN Alternative Academy. At June 30, 2008, there were no significant unbilled claims.

NOTES TO FINANCIAL STATEMENTS - Continued

The Academy participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The Academy makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the Academy's General Fund.

NOTE H - PENSION PLAN

The Academy contributes to the Michigan Public School Employees' Retirement Systems ("MPERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget Office of Retirement Services ("ORS"). MPERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Plan members who participate in MIP are required to contribute 3% to 4.3% of their annual covered salary; plan members who participate in the Basic Plan may not contribute to the Plan; and the Academy is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rate was 17.74% for the period July 1, 2007 to September 30, 2007 and 16.72% for the period October 1, 2007 to June 30, 2008 of annual covered payroll. The contribution requirements of plan members and the Academy are established and may be amended by the State Legislature. The Academy's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$84,689, \$71,552 and \$60,367, respectively, which is equal to the required contribution for each year.

Post Employment Benefits

Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for the post employment health care benefits are included as part of the Academy's total contribution to the MPERS plan discussed above.

REQUIRED SUPPLEMENTARY INFORMATION

CASMAN Alternative Academy

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Local revenues	\$ 31,700	\$ 142,902	\$ 153,029	\$ 111,202	\$ 10,127
State revenues	811,348	813,562	812,833	2,214	(729)
Federal revenues	88,568	104,534	93,732	15,966	(10,802)
Other	<u>546</u>	<u>1,211</u>	<u>1,352</u>	<u>665</u>	<u>141</u>
Total revenues	<u>932,162</u>	<u>1,062,209</u>	<u>1,060,946</u>	<u>130,047</u>	<u>(1,263)</u>
Expenditures					
Instruction	<u>326,426</u>	<u>391,460</u>	<u>379,120</u>	<u>(65,034)</u>	<u>12,340</u>
Support Services					
Pupil support	180,693	162,793	167,537	17,900	(4,744)
Improvement of instruction	54,584	60,128	56,158	(5,544)	3,970
Administration	214,300	229,998	228,902	(15,698)	1,096
Operations and maintenance	66,928	90,483	87,427	(23,555)	3,056
Fiscal/business services	32,400	29,500	29,473	2,900	27
Transportation	13,984	22,338	22,213	(8,354)	125
Technology	<u>6,493</u>	<u>19,250</u>	<u>19,111</u>	<u>(12,757)</u>	<u>139</u>
Total support services	<u>569,382</u>	<u>614,490</u>	<u>610,821</u>	<u>(45,108)</u>	<u>3,669</u>
Other	<u>25,897</u>	<u>11,614</u>	<u>11,442</u>	<u>14,283</u>	<u>172</u>
Total expenditures	<u>921,705</u>	<u>1,017,564</u>	<u>1,001,383</u>	<u>(95,859)</u>	<u>16,181</u>
REVENUES OVER EXPENDITURES	10,457	44,645	59,563	34,188	14,918
Other financing sources (uses)					
Proceeds from long-term debt	-	-	196,720	-	196,720
Fund balance, beginning of year	<u>253,662</u>	<u>253,662</u>	<u>253,662</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 264,119</u>	<u>\$ 298,307</u>	<u>\$ 509,945</u>	<u>\$ 34,188</u>	<u>\$ 211,638</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
CASMAN Alternative Academy

We have audited the financial statements of the governmental activities and each major fund of **CASMAN Alternative Academy** (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

Member of



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We consider the following deficiency to be a significant deficiency in internal control:

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the Academy's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Academy has always relied upon its independent external auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. The financial statements prepared by the auditors are then reviewed and approved by the Academy.

Accordingly, the Academy's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition, be considered a part of the Academy's internal control. In this regard, the Academy is not unlike many other schools of its size.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control. We believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, local oversight agency, Michigan Department of Education, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

September 24, 2008



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

AUDIT-RELATED COMMUNICATIONS

To the Board of Education
CASMAN Alternative Academy

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of CASMAN Alternative Academy (the "Academy") for the year ended June 30, 2008 and have issued our report thereon dated September 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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Internal Controls

As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have issued a report describing our findings.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 13, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CASMAN Alternative Academy are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by CASMAN Alternative Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. None of management's estimates are considered to be particularly sensitive.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatement detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The only entries recorded during the audit were from the management of the Academy related to the final reconciliation of various accounts.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the CASMAN Alternative Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of CASMAN Alternative Academy and is not intended to be and should not be used by anyone other than these specified parties.

We are pleased to serve as the Academy's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

September 24, 2008



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Dennis, Gartland & Niergarth

September 24, 2008